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C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 000762

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SUBJECT: SYRIA'S ELECTRICITY CRISIS

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11. (C) SUMMARY: Syria has recently suffered widespread and unscheduled electricity outages. The SARG has tried to assert that the outages are a temporary problem, but this current crisis is an indicator of the larger electricity dilemma facing Syria today) a growing electricity shortage brought on by increasing demand and insufficient generating capacity. To avert a further deterioration of the situation, the SARG needs to invest significant funds - an estimated USD one billion every 18 months - into new power stations. The SARG's ability to meet this challenge in the mid- to longer term, however, is questionable. Syria's difficult business environment, bureaucratic hurdles, and corruption are delaying ongoing projects and dampening the interest of private companies capable of building new stations. Furthermore, Syria's current generating capacity is being undermined by electricity waste) from outdated transmission lines and illegal use. End Summary.

12. (C) SYRIA EXPERIENCING SEVERE ELECTRICITY OUTAGES: Electricity rationing) especially during the summer months) has been a regular occurrence in Syria over the past few years, but the situation has deteriorated this summer. Starting in June 2007, Syria - which is currently producing about 6000 megawatts (mw) of electricity - has suffered not just from electricity rationing, but also from widespread and unscheduled electricity outages. During the previous month, some areas in major cities, including in Damascus and Aleppo, have experienced up to eight hours a day of outages) burdening average Syrians and forcing businesses to reduce their activities for several hours in a row - creating heavy losses for industry. The outages have sparked a public outcry, and government and quasi-independent local newspapers have openly criticized the power cuts and demanded formal investigations. (Note: Despite the domestic cuts Syria is still providing Lebanon with electricity) albeit at a reduced level of 70 mw) down from 140 mw last year. (ref A) End Note).

13. (C) ADDITIONAL BURDEN OF FUEL CONSUMPTION: Although less publicly visible than the outages, another aspect of the electricity sector is also putting a strain on Syria - the ongoing utilization of fuel oil by Syria's power plants. The Ministry of Electricity reports that approximately half of Syria's power is still generated by fuel oil, with natural gas and a small amount of hydroelectric power - approximately 10 percent - generating the rest. The SARG reported that in

2006 Syria's power stations consumed 7 million tons of fuel oil, of which roughly 1.8 million tons was imported - at a cost of USD 540 million annually. In the face of declining oil production the continued subsidization of fuel oil for the electricity sector is exacerbating the growing Syrian budget deficit (ref B and C). (Note: There have been rumors that a "fuel for electricity" barter with Iraq is helping to alleviate this problem, but contacts report the barter is minimal - approximately 50 mw of Syrian electricity, primarily for the Iraqi city of Mosul, in exchange for Iraqi fuel for the 170 mw power plant of Sweidiyeh in northeast Syria. End Note).

¶4. (C) SARG POINTS FINGERS AND ASSERTS PROBLEMS ARE TEMPORARY: The SARG's response to the electricity outages and subsequent public outcry has been to blame politically expendable government figures and insist that the outages are temporary and solvable. In early June 2007, several regional electricity directors - from Damascus, the al-Nasriyeh area near Damascus, and the northeastern city of Deir-al-Zur - were fired amidst allegations of corruption. Subsequently, Prime Minister Naji al-Otri publicly blamed Minister of Electricity Ali Ahmad and gave him two weeks to solve the electricity crisis - a deadline that has recently passed. Without discernible action being taken, contacts assert that the public condemnations are a SARG effort to position the Minister of Electricity to take the fall for the government's long-term lack of action on this issue, possibly in a cabinet reshuffle.

¶5. (C) SHORT-TERM FIX IS NOT ENOUGH: Beyond finger pointing, SARG officials have also been quick to insist that the outages are caused by temporary problems including a sudden increase in demand due to a heat wave; reduced supplies from

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the Turkish, Jordanian, and Egyptian grids; ill-defined "technical failures," and low-water levels in the Euphrates River undercutting the generating capacity of hydroelectric plants (ref D). SARG officials further assert that three power station upgrade projects nearing completion will alleviate the crisis. These projects, which will add a total of 425 mw of power - and reduce the three power plants' reliance on fuel oil - should already be completed, but were delayed by the technical and bureaucratic problems typical to Syria's business environment. One of these projects is the addition of two 167 mw turbines at the Banyias power plant by the Iranian Azarab Energy Industries Development company) one of the turbines went on-line in May, but completion of the other will likely be delayed by four months to September. The Minister of Electricity is now partially blaming the Iranian company for the current crisis, saying it delayed delivery of the necessary turbines. Regardless, contacts assert that these current conditions have only exacerbated Syria's underlying electricity dilemma, and argue that the aforementioned upgrades are not enough to address Syria's growing electricity shortfall.

¶6. (C) GROWING ELECTRICITY SHORTFALL REQUIRES MASSIVE INVESTMENT: Contacts in the electricity sector argue that increasing demand coupled with the SARG's lack of investment in new power generation over the past five years has created a current electricity shortfall of approximately 1000 mw) up from 750 mw in 2006. These contacts further estimate that demand has been increasing at as high a rate as 10 percent per year. The Syrian Minister of Electricity recently went further publicly stating that electricity demand in 2006 increased 14 percent. Reasons for increasing demand, according to Syrian economists, include expanded economic activity, population growth, and the influx of up to 1.4 million Iraqi refugees over the past 3.5 years. Regardless, the electricity shortfall has now reached a point where contacts argue that the SARG would need to invest USD one billion every 18 months in new power stations to meet the growing demand.

¶7. (C) BUREAUCRATIC DELAYS AND CORRUPTION HINDERING DEVELOPMENT OF NEW POWER STATIONS: Due to the SARG's neglect of the power sector, the last major power plant was built in 2002 in Aleppo. Even if the SARG focuses its energy in solving the electricity crisis the development of new power stations will be hindered by the difficult business environment, bureaucratic delays, and corruption endemic in Syria. Business contacts contend that many international companies - including Mitsubishi from Japan and General Electric from the United States - which are capable of delivering on new power stations are either reluctant to work in Syria because of U.S. sanctions or past bad experiences with corruption. As a result, Syria has had to turn to a lower tier of developers - such as the Iranian company - which have demonstrated difficulty in completing quality projects on time.

¶8. (C) Illustrating the problems endemic to new economic developments in Syria, the SARG commissioned two new 750 mw combined cycle plants in 2005 and 2006 that could help alleviate the current electricity dilemma - but these projects have yet to begin (Note: These projects have significant funding from the European Investment Bank, as well as the Arab Fund for Social and Economic Development and the Islamic fund. End Note). The first contract was awarded to a joint consortium of Siemens and Koch to develop a 750 mw combined cycle in Deir Ali, south of Damascus. This project was delayed after Koch went bankrupt) partly because of outlays for project supplies that were subsequently held up by Syrian contracting procedures, according to contacts. While it appears this project may move forward with Siemens alone, it will be at least a year delayed. The second contract was awarded to the Spanish company Iberdrola to develop a 750 mw combined cycle plant near the city of Deir-ez-Zor. Although the SARG continues to hype this project, contacts in the energy sector assert that insurmountable contracting problems and backroom maneuvering by regime cronies have delayed this project indefinitely.

¶9. (C) WASTE EXACERBATING PROBLEM: Beyond the problems in generating additional electrical capacity, Syria also faces a serious problem of electricity waste) further diminishing supplies. Installed generating capacity in Syria is theoretically 7,600 mw, but even the SARG's Public Establishment for Electricity Generation and Distribution (PEGT) reports that actual production in 2007 is only expected to be 6400 mw, up from 6000 mw in 2006. The

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discrepancy between capacity and production is due to technical problems) both from outdated machinery and human error, routine maintenance, and the upgrades ongoing at some of the 17 power plants in Syria. In addition, contacts estimate that annual power waste in Syria is upwards of 25 percent per year. This occurs from outdated transmission lines, as well as significant illegal electricity consumption) especially in illegal housing areas. The SARG alone reported 47,000 cases of illegal consumption in 2006, of which one-half were in the Damascus suburbs.

¶10. (C) CONCLUSION: The electrical outages currently affecting Syria may temporarily abate once ongoing power station upgrades are complete. Nevertheless, this will only be a momentary reprieve from the growing electricity shortage caused by increased demand and insufficient internal supply. As the recent crisis also proved, Syria cannot rely on constant or increased electricity supplies from neighboring countries to make up the shortfall - these supplies were actually at reduced levels when Syria needed them the most over the past few months. The SARG's efforts in the short-to mid-term, including ensuring that current electricity projects finish on time and planning for new power stations, will determine whether the electricity situation further deteriorates over the medium to long-term. If the delayed status of the country's current electricity projects are any indicator, however, the SARG's ability to meet this challenge

is not promising.
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